Request 1-11

Request:

What has been the experience of National Grid in New York regarding the implementation of hourly pricing for default service customers? In your response, please specify the start date for hourly pricing, rate classes for which hourly pricing applies, customer size limitations, number of customers served under hourly rates by rate class, and estimated demand response by rate class.

Response:

Background

National Grid's New York distribution affiliate (formerly Niagara Mohawk) has offered hourly pricing to its largest customers since 1988. During the first 10 years, hourly prices were offered to customers who volunteered for the rate. In 1998, The New York Public Service Commission approved changes to the tariff which put all customers above 2,000 KW of demand on hourly pricing, currently 291 customers. Customers who take commodity service from the Company under this rate are billed for commodity based on their actual hourly usage and the hourly day-ahead location based marginal price (DALBMP)[3]. However, 71.1% of eligible customers are receiving some portion of commodity service from an energy service company ("ESCo") currently[4]. The Company sends hourly usage data to the ESCo for billing and settlement purposes. ESCos can offer customers hedged prices to reduce the volatility of the hourly price, an hourly price or another hybrid arrangement tailored to the customer's requirements.

Customers were key in the decision to extend hourly pricing to this group of customers. The primary advocacy group for large customers requested this pricing model for their members during rate proceedings at the time. National Grid agreed to the extension because:

- both the Company and Customers had learned many lessons from the voluntary programs;
- eligible customers had interval meters; and
- the Company was installing a new billing system (CSS) which could process hourly billing determinants.

Because the retail market was relatively underdeveloped in 1998, the Company simultaneously offered eligible customers an alternative default arrangement in which they were able to nominate fixed amounts of peak and off peak kWh to be delivered at a fixed contract

[3] Posted DALBMP prices are adjusted for installed capacity, ancillary services, and losses.
[4] Some large customers who are eligible for hourly pricing receive low cost power from the New York Power Authority under economic development programs. This may limit or eliminate the need for supply from National Grid or a competitive supplier. Thus, the percentage of kwhs served by competitive suppliers is significantly lower, in the range of 10-20%, than the percent of customers served.

Request 1-11 (continued)

price for five years. After five years, eligible customers would be billed for commodity based on their actual hourly usage. 18% of eligible customers chose this option.

Customer Response to Hourly Pricing

In June 2004, a report was published which analyzed the experience of customers on National Grid's hourly pricing tariff in New York. The report was commissioned by the California Energy Commission. This study combined a survey of customer attitudes with estimates of customer response to prices. A total of 53 customers representing 64 accounts responded to the survey. The respondents comprised 43% of all accounts analyzed in the study. Thus, the survey results provide interesting insights into customer attitudes but must be used with care when extrapolating these insights to a broader population due to bias on the part of the respondents. The report concluded as follows[5]:

1. 65% of customers were exposed to hourly prices through the default hourly price or through supply contracts indexed to the hourly price;
2. "many...customers indicate through their actions and statements that they would prefer to hedge – either through flat-rate supply contracts or financial hedges – rather than being exposed to potentially volatile ...prices";
3. Moving customers to a mandatory hourly price tariff would be a "hard sell" if the availability of diverse and fairly priced alternatives was not available;
4. Over 30% of survey respondents would forego discretionary usage to save during high prices;
5. 15% of survey respondents can move usage from peak periods to lower priced periods;
6. Price elasticity was 0.11 for industrial customers, 0.3 for government/education customers and 0.0 for commercial customers;
7. Demand response programs from the ISO increase participation of customers and the amount of load curtailed (some customers interrupt load due to an obligation to help keep the lights on);
8. Industrial customers reduce load more aggressively in response to ISO demand response programs than hourly prices;
9. Government/education customers respond modestly to ISO demand response programs;
10. There has been modest investment in demand response by only 45% of customers since hourly pricing was implemented.

PSC Order to Extend MHP to SC-3 Customers

The large increase in energy prices in the fall of 2005 caused the New York Public Service Commission to investigate mechanisms to lower prices through demand response. At the

[5] C. Goldman, N. Hopper, B. Neenan, et.al., "Customer Response to Day-ahead Wholesale Market electricity Prices: Cas Study of RTP Program Experience in New York" Final Report, prepared for The California energy Commission, June 2004 . pp. xiii-xiv.

Request 1-11 (continued)

time, National Grid was the only electric utility offering hourly prices on a mandatory basis to customers. The perceived beneficial experience caused the Commission to order all utilities to provide mandatory hourly pricing for its largest customers. The Commission directed companies to file: (i) a plan to install interval meters; (ii) a report on the feasibility of equipping customers with tools for measuring usage and other data needed to monitor consumption in real time; and (iii) a plan to educate eligible customers.

The Commission order expanded mandatory hourly pricing at National Grid to 4,592 medium-sized C&I customers whose maximum billing demand ranges from 100 to 1,999 kW. Currently, these customers take commodity service from National Grid and are billed for commodity based on a thirty-day weighted average DALBMP. Given the large size of the class and the small size of many customers, National Grid has worked to clarify and amend the Commission's order to allow a phased approach with evaluations of customer satisfaction and a determination of benefits from further expansion to the smallest customers. On April 24, 2006, the Commission approved the Company's proposal for a phased in approach which moves customers with billing demands greater than 500 kW to hourly pricing by September 1, 2006. Also, the Commission approved National Grid's proposal to recover metering costs through an incremental customer charge. National Grid and the other New York utilities were also authorized to recover remaining implementation and outreach and education costs that are unrelated to meter installation and activation from all ratepayers through delivery rates.

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